HCM STRATEGISTS
Align. Advocate. Advance.

Doing Better for More Students
ISSUE BRIEF

In July 2012, HCM convened a small group of financial aid, tax and higher education policy experts. The technical panel was charged with examining the overall financial aid system and developing innovative policy ideas that respond to the fiscal, economic and demographic realities the nation faces today. This brief summarizes the results of their collaboration.

WHY DOES THIS MATTER?

The nation's financial aid system was built for a different age. In 1965, when the first significant federal financial aid program began, 23 percent of Americans had a college degree. This attainment level was sufficient to support a vibrant middle class. That economy and those times are no more.

Today, the economy places a premium on postsecondary credentials and the skills these degrees represent. By 2018, 45 percent of all jobs will require some type of college degree, including certificates. Unfortunately, nearly half of all students start college but fail to earn any credential within 6 years; the outcomes are much worse for African Americans and Hispanics.

The financial aid system – its collective $226 billion in investment – needs to be seen as part of the solution for a nation that needs many more skilled graduates, a stronger middle class and greater opportunity.

In size and scope, student financial aid is more important than ever. Nearly half of all undergraduates receive a Pell grant. Revenues from Pell grants pay almost $.20 on every $1.00 received by a college or university in this country, ranging from 43 percent at 2-year public colleges to 7 percent at 4-year private colleges. If current trends continue with public colleges in several states, the percentage share that federal financial aid pays of total operating costs soon will exceed what states pay.

It is time to modernize the financial aid system and align it with today's economic and fiscal realities. The level of aid matters, but so does its design and delivery, according to research. Known barriers in how financial aid dollars are distributed hinder innovation and the expansion of more cost-effective approaches to a quality postsecondary education. A new survey of engaged voters confirms Americans are ready for reform and open to conversations about ways financial aid can serve more students, better.

OUR NATION IS FACING A GROWING CRISIS

46% of college students do not earn any credential within 6 years.

63% of African American students do not graduate within six years.

58% of Hispanic students do not graduate within 6 years.

A SIMPLER, MORE EFFECTIVE FEDERAL AID SYSTEM:
One Grant, One Loan, One Tax Benefit

FIRST, simplify financial aid with a single federal grant program and a single loan program accessed by means of a simpler application. A new grant program would consolidate federal support into a grant designed to provide an open financial door to higher education and focus on applicants with genuine need. A simplified loan program, with universal income-based repayment, would be available for middle-income students who do not qualify for grants, as well as to supplement grant resources for low-income recipients.

For most students, application data for both the grant and loan program would be directly imported from federal income tax data, simplifying the process, making the total financial aid package and terms of repayment more transparent, and reducing opportunity for error or fraud.

ONE GRANT PROGRAM

- Make the enduring commitment to affordable access with a simpler needs analysis and application process for all federal financial aid.
  Projected 10-Year Savings: between $37 billion and $73 billion[1]
  - Simplify the FAFSA, replacing much of the interface with a pre-filled interface so low-income students can qualify for the aid they need.
  - Offer a simple look-up table based on income and family size so students can plan early and choose wisely.
  - Eliminate federal campus-based aid.

ONE LOAN PROGRAM

- Streamline the loan programs and reduce the complexity in loan terms and repayment rates.
  Projected 10-Year Net Savings: $38 billion
  - Create common annual and aggregate loan limits for undergraduates and for graduates. Help mitigate price insensitivity by setting these levels at a midpoint between current levels for dependent and independent students.
  - Use a market-based interest rate.
  - Eliminate the subsidized loan program, which pays interest that accrues during school, and move that subsidy to a reformed income-contingent loan repayment that all students participate in.

SECOND, simplify federal tax benefits for higher education. The single grant and loan program, as proposed, provides generous but better-targeted financial benefits to all students. Making these changes reduces significantly the need for the current tax benefits for college tuition and fees. Further, there is little evidence that tax credits and deductions have significantly affected higher education outcomes, but their effectiveness could improve if they were better targeted, better timed and better integrated into financial aid policy. A single Lifetime Learning Credit, available for education and including training that happens outside of a formal program (for example, an assessment for credit for prior learning or proficiency in a Massive Open Online Course, or MOOC), replaces the existing credits and deductions.

ONE TAX BENEFIT

- Consolidate all household-based tuition and fee tax credits and deductions into one Lifetime Learning Credit.
  Projected 10-Year Net Savings: $97 billion[2]
  - Make any tax benefits permanent to better serve students and families.

THIRD, promote **shared responsibility** for completion. For students, this means making smart choices about schools to attend and upgrading the definition of satisfactory academic progress—or what is required to receive and keep a maximum award. Promoting intensive enrollment for all students improves the odds of completion and focuses the size and scope of the federal aid investment in structured and accelerated pathways that can work better for students who juggle work, family and other commitments while attending school.

A set of balanced metrics can be used to create stronger eligibility criteria for institutions receiving federal aid. An "Institutional Effectiveness Index" can integrate measures of access and equity, loan repayment and risk-adjusted completion rates. Institutions would not need to perform strongly on all components of the index to have a passing score. In fact, it would be unlikely that they could do well on all. But they also could not get by with weak performance in all or most components.

FOURTH, spend a portion of the federal aid budget on demonstration programs that spur **innovation and experimentation**.

This could include pilot programs such as: 1) a "Pell-ready Grant Demonstration" in which students with family incomes within 250 percent of the poverty level who need remediation would receive a flat award, for use at either traditional or nontraditional providers, with incentives to both the student and institution for timely completion; 2) a "Competency-based Demonstration" that would support students and institutions pursuing competency-based (as opposed to seat-time- or credit-hour-based) models of higher education; 3) a "Performance Contract Demonstration" that would maintain federal needs analysis and a guaranteed federal student award, but give institutions discretion over how to allocate their federal aid dollars in exchange for successfully graduating higher numbers of low-income students.

INCENTIVES FOR ON-TIME COMPLETION

- Limit the number of credits *borrowers* can accumulate before aid eligibility ends.
- Provide incentives for students to make progress toward completion within 100 percent of the time.
  - Increase the number of credits a student must take per semester or year to qualify for the maximum, full-time award.
    Projected 10-Year Net Savings: $39 billion[3]

  OR

  - Give students a $7,000 maximum grant if they complete at least 27 credit hours in a 12-month academic year.
    Projected 10-Year Net Cost: $86 billion[4]
- Work to define a set of metrics that can be phased in over time to help determine institutional eligibility for federal financial aid. A sample Institutional Effectiveness Index could include:
  - a measure of access and equity
  - loan repayment; and
  - input-adjusted completion rate
- Eliminate Parent PLUS and Grad PLUS loans, which have no time or borrowing limit.

ENDING THE PARALYSIS:
Statement Of The Technical Panel

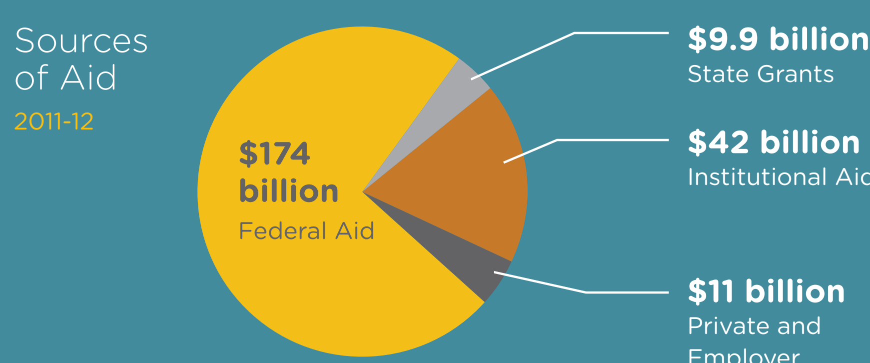
The time for policymakers to consider fundamental improvements to the federal financial aid program is now. Forty-nine percent of engaged voters believe the higher education system needs major changes or a complete overhaul. When presented with arguments for and against providing financial aid based on completion, 73 percent of engaged voters surveyed believed this was a good idea.[5]

At the same time, statutory provisions that offer important benefits to borrowers and taxpayers will expire this year or shortly thereafter.[6] Most of the program authorities provided by the Higher Education Act expire within two years.[7] Policymakers must not let this opportunity pass.

Our knowledge of how financial aid works and how it affects higher education outcomes is imperfect, and the system as it stands has largely evolved based on politics, ideology and available budgets rather than evidence. The solutions we have outlined work from what imperfect information we have, while remaining open to continued improvement as our understanding advances. For that advance to occur, we support improvements in descriptive data collection about aid recipients and their results, as well as expanded experimentation with a portion of the federal aid budget to increase the knowledge base that policymakers can draw upon in future reforms.

49% of engaged voters believe the higher education system needs major changes or a complete overhaul.

THE BROAD REACH OF FEDERAL FINANCIAL AID

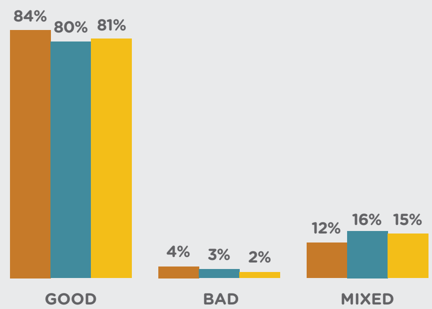


REACTIONS TO SPECIFIC APPROACHES TO REFORMING FEDERAL AND STATE STUDENT FINANCIAL AID PROGRAMS

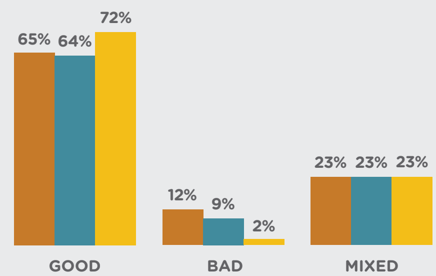
KEY

- Engaged Voters
- African-American Parents
- Hispanic Parents

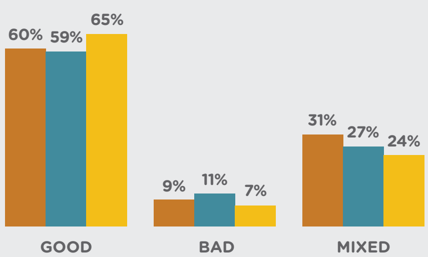
Require colleges make information about student outcomes accessible to students and parents



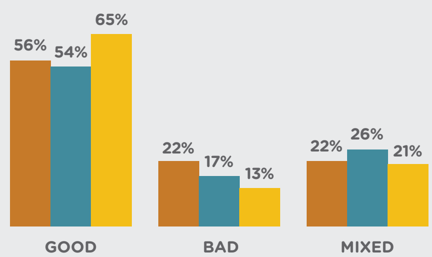
Simplify tax credits and use savings to expand grants and loans



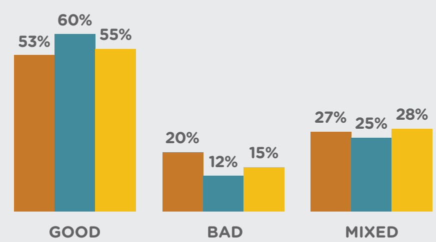
Spread payments of financial aid out as students advance through and complete a course



Require colleges graduate a minimum of 20% of all students to receive federal aid



Restrict financial aid to college-ready students, and fund remedial courses with other government aid.



The new College Score Card can help students, colleges and the public make better, informed decisions. It can be improved if all institutions receiving federal financial aid collect and publicly report for all students:

- enrollment data, including full-time and various measures of part-time and transfer;
- tuition prices and other costs of attendance;
- completion and graduation data, including student mobility-adjusted persistence rates, graduation rates that consider institutional mission, and time to degree by field of study; and
- financial aid data from state, institutional and third-party sources.

HCM STRATEGISTS' EXPERT TECHNICAL PANEL

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Kevin Carey, New America Foundation

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[1] This assumes current take up rates, we eliminate campus based aid programs and it includes closing the current $44 billion current projected shortfall. Our simplified formula saves $37 billion even if we assume full take-up rate of eligible students.

[2] The technical panel proposes eliminating the AOTC and moving savings into an expanded grant program. For example, t\ he savings from consolidating the tax credits could be used to expand the size of the maximum grant to $7,000. If a tax credit aimed at undergraduate education is deemed essential, it should be non-refundable and be structured more like the Hope credit, which was replaced by the AOTC.

[3] This assumes using existing FAFSA aid system and that ¼ of students taking 12 credits will increase their courseload. The savings are higher and more targeted to lower income students if the simplified application is used.

[4] This assumes using existing FAFSA aid system and that ¼ of students taking 12 credits will increase their courseload. If the simplified application is used, the expanded grant will save about $42 billion, Alternatively, it would cost $11 billion if eligibility is expanded to 250% of poverty rate.

[5] Hart Research Associates in collaboration with HCM Strategists and contributing partner The Winston Group. 2013. *College Is Worth It*. http://hcmstrategists.com/americandream2-0/report/FINALHartPublicOpinionResearch.pdf.

[6] Higher Education Opportunity Act of 2008 authorizes the programs for five years (P.L. 110-315).

[7] Some programs authorized through HEA can continue to receive funds and operate one additional year after authorities expire through the authorities provided in the General Education Provisions Act. 20 USC 1226a (P.L. 112-123)

HCM STRATEGISTS

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HCM Strategists, founded in 2008, works with clients to align, advocate for, and advance public policies that improve our nation's education and health.

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